



the code of practice on local authority
accounting in the united kingdom
2011/12 code update and 2012/13
code

invitation to comment

invitation to comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is normally updated annually.
2. Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. There have been a number of developments to statutory accounting or disclosure requirements which have taken place since the publication of the 2011/12 Code. These items have an effective date of earlier than the 2011/12 financial year. In the interests of assisting practitioners with the interaction of these reporting requirements and the Code the CIPFA/LASAAC Code Board has decided to issue a 2011/12 Code Update. In addition there are a small number of relatively minor amendments that CIPFA/LASAAC consider could usefully be included in a Code Update (although they would not in themselves justify a Code Update) and therefore Section A of this Invitation to Comment (ITC) concerns development items which will be issued as an Update to the 2011/12 Code and once confirmed via the consultation process will also be included in the 2012/13 Code. As with the 2011/12 Code the 2011/12 Code Update is applicable for the 2011/12 financial year and is based on accounting standards in effect on 1 January 2011 or earlier.
3. The move to International Financial Reporting Standards (IFRS) has meant that the treatment of non-current schools assets has been subject to further discussion and debate. The CIPFA/LASAAC Local Authority Code Board considers that it is important that, where possible, a resolution to the debate is presented in the Code. It therefore considers it necessary to issue as a part of this consultation on the Code a separate, single issue ITC. The separate ITC, Accounting for Non-current Schools' Assets, is available on <http://www.cipfa.org.uk/pt/consultations.cfm>
4. The edition of the Code that is applicable for a financial year is based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2012/13 Code which is also the subject of this consultation, this means that accounting standards with an effective date of 1 January 2012 or earlier will need to be taken into account. Section B of the ITC includes the items that will feature in the 2012/13 Code.
5. This ITC sets out CIPFA/LASAAC's proposals for developing the current (2011/12) Code with the resulting amendments to be included in either the 2011/12 Code Update (and in the 2012/13 Code) to apply to accounting periods commencing on or after 1 April 2011 (Section A of this ITC), or the new edition of the Code (the 2012/13 Code) to apply to accounting periods commencing on or after 1 April 2012 (Section B of this ITC). The proposed developments are:

Section A – 2011/12 Code Update and 2012/13 Code – Statutory Accounting and Disclosure Requirements

- (a) Issues arising from the new Accounts and Audit (England) Regulations

- (b) Incorporating the new statutory disclosure requirements in the Housing Revenue Account (Accounting Practices) Directions 2011
- (c) Incorporating the new requirements for the production of a Remuneration Report as a part of the statutory accounts resulting from new regulations in Scotland
- (d) Incorporating the new reporting requirements for reporting local authority pension funds in accordance with new statutory guidance issued in Scotland
- (e) Amending the Code to include the revisions to the statutory accounting requirements for the treatment of short-term accumulated compensated absences for Northern Ireland District Councils
- (f) Business Rate Supplements (England) and Community Infrastructure Levy (England and Wales) – clarification of statutory requirements
- (g) Amending the Code to clarify the accounting treatment for non-current schools assets (please see separate consultation)
- (h) Other Minor Changes for the 2011/12 Code Update (and 2012/13 Code)

Section B – 2012/13 Code Only

- (i) Explanatory Foreword/Management Commentary
- (j) Accounting for Financial Instruments – Amendments to IFRS 7 Financial Instruments Disclosures (transfers of financial assets)
- (k) Updates resulting from the first phase of the IASB Conceptual Framework for Financial Reporting 2010
- (l) Other minor changes reflecting revisions to accounting standards, codes and legislation.

The Consultation Process

6. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft 2011/12 Code Update or the 2012/13 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.
7. Responses to this Invitation to Comment will be regarded as on the public record unless confidentiality is specifically requested. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.
8. A copy of the Exposure for the Drafts of the 2011/12 Code Update and the 2012/13 Code in pdf format can be down-loaded from the CIPFA website <http://www.cipfa.org.uk/pt/consultations.cfm>
9. To assist authorities to respond to the consultation, a response form (in Word format) is attached. We would be grateful if authorities could use this form to respond to the consultation as this will speed up the analysis.
10. Responses are required by 30 September 2011 and may be sent to:

The Secretary
 CIPFA/LASAAC Local Authority Code Board
 Policy and Technical Directorate
 CIPFA
 3 Robert Street
 London

WC2N 6RL

Fax: 020 7543 5695

E-mail: code.responses@cipfa.org

(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

SECTION A – DEVELOPMENT ITEMS WHICH WILL BE INCLUDED IN A 2011/12 CODE UPDATE AND 2012/13 CODE

Statutory Accounting and Disclosure Requirements

The Accounts and Audit (England) Regulations 2011

11. The new Accounts and Audit Regulations in England, issued after the 2011/12 Code had been prepared, introduced a revised authorised for issue procedure. Members are now required to approve the financial statements prior to their publication by 30 September each year, rather than prior to 30 June.
12. The amendments in the 2011/12 Code Update Exposure Draft feature changes to the relevant bodies permitted or required by the Regulations to follow the Code, or parts of it. The amendments also include consequential changes for references within the Code to the Accounts and Audit Regulations as a result of the issue of the new regulations.
13. The proposed amendments to the Code are intended to reflect the requirements of the revised regulations; they do not introduce any requirements not included in the regulations.

The Accounts and Audit (England) Regulations 2011

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| Q1 | Do you agree that the amendments to the Code in respect of the authorised for issue process in England reflect the new Accounts and Audit (England) Regulations 2011? If not, why not? What alternatives would you suggest? |
| Q2 | Do you agree that the amendments to the Code in respect of the application of the Code to relevant bodies covered by legislation reflect the requirements of the new Accounts and Audit (England) Regulations 2011? If not, why not? What alternatives would you suggest? |

The Housing Revenue Account (Accounting Practices) Directions 2011

14. The Department for Communities and Local Government (DCLG) issued the Housing Revenue Account (Accounting Practices) Directions 2011 in May 2011. The Direction sets out the statutory disclosure requirements for the Housing Revenue Account (HRA). It applies to local authorities in England from the 1 April 2010. In addition the Code, paragraph 3.5.5.1, retains additional reporting requirements relevant to the HRA. However, CIPFA/LASAAAC will review the reporting requirements for the HRA in England when the changes resulting from the reform to the Housing Revenue Account are known. The HRA disclosures will also be included in the review of the statutory and financial reporting requirements described in paragraph 70.
15. The proposed amendments to the Code are intended to reflect the requirements of the new Direction; they do not introduce any requirements not included in the Direction.

The Housing Revenue Account (Accounting Practices) Directions 2011

- Q3 Do you agree that the amendments to the Code reflect the new Housing Revenue Account (Accounting Practices) Directions 2011 and the reporting requirements for local authorities with Housing Revenue Accounts in England? If not, why not? What alternatives would you suggest?

Remuneration Report (Scotland)

16. The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011 No. 64) were issued after the 2011/12 Code had been prepared and introduced the requirement for local authorities in Scotland to produce a Remuneration Report as a part of the statutory accounts.
17. The proposed amendments to the Code are intended to reflect the requirements of the revised regulations; they do not introduce any requirements not included in the regulations.

Remuneration Report

- Q4 Do you agree that the amendments to the Code accurately reflect the requirements of the amending Regulations (the Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011 No. 64))? If not, why not? What alternatives would you suggest?

Accounting for Local Authority Pension Funds (Scotland)

18. Scottish Government Finance Circular No. 1/2011 Accounting for Local Authority Pension Funds (Scotland), sets out statutory guidance that was issued after the 2011/12 Code had been prepared. It provides that administering authorities that are required by statute to produce pension fund annual reports are only required to make the disclosures stipulated in the statutory guidance in their local authority accounts. Consequently, administering authorities in Scotland are no longer required to include the pension fund accounts in the local authority financial statements. The Code remains proper practice for the production of the pension fund accounts.
19. The proposed amendments to the Code are intended to reflect the requirements of the new statutory guidance; they do not introduce any requirements not included in the statutory guidance.

Accounting for Local Authority Pension Funds (Scotland)

- Q5 Do you agree that the amendments to the Code reflect the new statutory guidance on accounting for local authority pensions funds in Scotland? If not, why not? What alternatives would you suggest?

20. In March 2011 the Scottish Government issued the following statutory guidance:
- Scottish Government Finance Circular No. 5/2011- Accounting for Investments – Icelandic Banks
 - Scottish Government Finance Circular No. 6/2011 – Accounting for Grants, Contributions and Donated Assets
 - Scottish Government Finance Circular No. 7/2011 – Accounting for Investment Properties
21. The proposed amendments to 2011/12 Code Update Exposure Draft are included in Chapter Seven Financial Instruments and Appendix B Sources and Legislation to reflect the issue of the new statutory guidance. Chapter Seven also includes a minor amendment in relation to the impairment of certain investments for Welsh local authorities.

New Statutory Guidance - Scotland

- Q6 Do you agree that the amendments to the Code accurately reflect the new statutory guidance issued by the Scottish Government? If not, why not? What alternatives would you suggest?

Accounts Direction – Northern Ireland District Councils 2010/11

22. A revision to the Accounts Direction – Northern Ireland District Councils requirements in relation to the treatment of short-term accumulated compensated absences that was issued after the 2011/12 Code had been published now requires that the accrued element of short-term accumulating compensated absences is to be held within the Accumulated Absences Reserve until the liability is discharged. This treatment is the same approach applied in the other UK government jurisdictions. The Accounts Direction applies to the restatement of the Council Balance sheet (1 April 2009) as a result of the need to apply accounting standards retrospectively as well as to in year movements of the accrual from the 2009/10 accounts onwards.
23. The proposed amendments to the Code are intended to reflect the requirements of the revision to the Accounts Direction; they do not introduce any requirements not included in the Direction.

Accounts Direction – Northern Ireland District Councils 2010/11

- Q7 Do you agree that the amendments to the Code reflect the Accounts Direction – Northern Ireland District Councils 2010/11 requirements in relation to the statutory accounting treatment of short-term accumulated compensated absences for Northern Ireland district councils? If not, why not? What alternatives would you suggest?

Business Rate Supplements (England) and Community Infrastructure Levy (England and Wales) – Clarification of Statutory Requirements

24. The 2011/12 Code Update Exposure Draft includes proposed clarifications to the accounting provisions for Business Rate Supplements (BRS) (England) and the Community Infrastructure Levy (CIL).

Business Rate Supplements (England)

25. The Business Rate Supplements Act 2009 confers powers on relevant local authorities *“to impose a levy on non-domestic rate payers to raise money for expenditure on projects to promote economic development.”* As income from a levy on non-domestic rate payers, BRS should be recognised in the Comprehensive Income and Expenditure Statement as taxation income. The proposed 2011/12 Code Update amendments therefore require that BRS income is recognised (subject to the conditions being met) in the Taxation and Non-Specific Grant Income line of the Consolidated Income and Expenditure Statement.

Community Infrastructure Levy

26. The 2011/12 Code Update Exposure Draft has also been amended to include a minor addition to the statutory accounting requirements for the Community Infrastructure Levy (CIL) to set out the accounting treatment after the CIL has been applied to capital expenditure.
27. The provisions for BRS and CIL have been included in the same section of the 2011/12 Code Update Exposure Draft for ease of reference for respondents – the proposed amendments are not related subject matters.

Business Rates Supplements (England)

Q8 Do you agree that the amendments to the Code reflect accounting requirements in relation to the recognition of BRS income? If not, why not? What alternatives would you suggest?

Community Infrastructure Levy (England and Wales)

Q9 Do you agree that the minor amendment in relation to the CIL adequately reflects the accounting requirements after CIL has been applied to capital expenditure? If not, why not? What alternatives would you suggest?

Other Minor Changes for the 2011/12 Code Update

England – Revenue Grant Funding

28. The Coalition Government ended Area Based Grant on 31 March 2011. The 2011/12 Code Update Exposure Draft paragraphs 2.3.4.9 and 3.4.2.79 have been amended to reflect these changes in the grant arrangements for local authorities in England in 2011/12. The references to Area Based Grant have therefore been removed in both of these paragraphs. CIPFA/LASAAC considers that it is no longer necessary to refer to individual grants in its provisions in relation to the

presentation of such grants in the Comprehensive Income and Expenditure Statement or the summary of significant accounting policies.

29. Furthermore, the October 2010 Comprehensive Spending Review announced (with certain exceptions) the ending of ringfencing of revenue grants. CIPFA/LASAAC is of the view that the current presentation for recognising un-ringfenced grants as one or more items on the face of the Comprehensive Income and Expenditure Statement (see Code, paragraph 2.3.2.9 and Section 3.4 Presentation of Financial Statements) is able to accommodate the changes to revenue funding and no further changes to the Code are required.

Other minor changes for the 2011/12 Code Update

- Q10 Do you agree that the amendments to the Code appropriately reflect the changes to grant arrangements in England? If not, why not? What alternatives would you suggest?
- Q11 Do you agree with CIPFA/LASAAC's view that the presentation provisions in the Code for revenue grants are able to accommodate the changes to revenue grant funding in England? If not, why not? What alternatives would you suggest?

Accounting and Other Financial Reporting Requirements

Accounting for Non-current Schools' Assets – see separate Invitation to Comment on the issue

30. A separate ITC has been issued on non-current schools' assets as a part of the consultation on the Code. The conclusions of the consultation will (subject to the consultation process) be included in the 2011/12 Code Update (and 2012/13 Code). For the ITC - Accounting for Non-current Schools' Assets see <http://www.cipfa.org.uk/pt/consultations.cfm>

Minor Amendments – 2011/12 Code Update

Minor Amendment – Classification of Reserves to be reported in the Movement in Reserves Statement

31. A minor amendment is proposed to paragraph 3.4.2.40 to clarify that the Major Repairs Reserve should be separately classified and reported within usable reserves in the Movement in Reserves Statement. This proposed amendment reflects the statutory nature of the reserve.

Minor Amendment – Cash Flow Statement – Indirect Method

32. A minor amendment is proposed to paragraph 3.4.2.68 to remove a sub-paragraph that had been included in error in the 2011/12 Code (and the 2010/11 Code).

Other minor changes for the 2011/12 Code Update

- Q12 Do you agree that the amendments to the Code appropriately reflect the reporting requirements of the Major Repairs Reserve in the Movement in Reserves Statement? If not, why not? What

alternatives would you suggest?

Q13

Do you agree that the corrections to the Code accurately reflect the accounting requirements of the Cash Flow Statement? If not, why not? What alternatives would you suggest?

SECTION B – DEVELOPMENT ITEMS WHICH WILL BE INCLUDED IN THE 2012/13 CODE ONLY

Accounting and Other Financial Reporting Requirements

Explanatory Foreword /Management Commentary

Background

33. As a part of its consideration of the development programme for the 2012/13 Code CIPFA/LASAAC reviewed its provisions on the publication of an Explanatory Foreword with the financial statements. The review was undertaken in the light of the issue in December 2010 of the IASB Practice Statement *Management Commentary – A Framework for Presentation* (IASB Practice Statement), CIPFA's wider initiatives on stakeholder reporting and the requirements of the Government's Financial Reporting Manual (the FReM) in relation to a Management Commentary.
34. The IASB Practice Statement provides a non-binding framework for management commentaries that relate to financial statements that have been prepared in accordance with IFRS (paragraph 3). The IASB Practice Statement is not an IFRS. It states that entities are not required to comply with the Practice Statement unless specifically required by their jurisdiction. Non-compliance with the Practice Statement will not prevent entities from complying with IFRS (paragraph IN 2).
35. The requirement to produce an Explanatory Foreword is one of the listed differences excepted from the Financial Reporting Advisory Board Statement reported in the Annex that prefaces the Code. The FReM, paragraph 5.2.8, requires that the annual report for a central government reporting entity contain a Management Commentary. This Management Commentary must disclose the matters required to be disclosed in the business review (as a part of the Director's Report) under Section 417 of the Companies Act 2006.
36. In March 2011 the Department for Local Government and Communities (DCLG) issued the consultation paper *The Future of Local Public Audit*. The consultation paper includes as a part of one of its options on the scope of the local authority audit in England the option of requiring local authorities to produce an annual report¹. It is not clear, as yet, whether this annual report would be produced with the financial statements. Nor is it clear whether the annual report would be published in the same timescales that the financial statements are required to be authorised for issue and published. It is likely that the annual report would include similar content to that of a Management Commentary. CIPFA/LASAAC is aware that the Scottish Government, at the request of LASAAC, is currently reviewing the requirements for the 1985 Regulations². This includes consideration of the content of the Explanatory Foreword or a Director's Report.
37. CIPFA/LASAAC considered a number of options to introduce Management Commentary provisions to the Code. However, in the interest of avoiding possible duplication of the DCLG or Scottish Government reporting framework initiatives and ensuring that the timing of the approach of the Management Commentary is co-ordinated with the potential legislative changes in England and Scotland CIPFA/LASAAC is proposing that for the short-term, until the legislative

¹ See - *The Future of Local Authority Audit*, DCLG March 2011 Chapter 4

² Local Authority Accounts (Scotland) Regulations 1985 (SI 1985, No. 267)

position is clearer, the amendments to the Code (proposed to be introduced in the 2012/13 Code) include only additional encouragement on an authority's approach to the production of the Explanatory Foreword.

38. This approach maintains the requirement to publish an Explanatory Foreword with the financial statements but encourages local authorities, in producing the Explanatory Foreword, to base this commentary on the guidance provided by the IASB Practice Statement or the provisions of the FReM in relation to the production of a Management Commentary.

Management Commentary Provisions in Future Editions of the Code

39. It should be noted that in the longer term once the legislative position is clear CIPFA/LASAAC would prefer to move to an approach that is more likely to encourage practice consistent with other sectors, encourage good practice in the production of a Management Commentary and accord with the framework in the IASB Practice Statement. CIPFA/LASAAC wishes to use this Invitation to Comment to consider this proposed future approach ie to produce a Management Commentary in accordance with the requirements of both the FReM and the IASB Practice Statement. It would also prefer that the Code's reporting requirements for the Management Commentary are consistent throughout the UK government administrations.

A Management Commentary based on the FReM and the IASB Practice Statement

40. CIPFA/LASAAC is proposing that a future approach to a Management Commentary is based on the reporting requirements of the FReM in relation to a Management Commentary. The current version of the FReM requires that the Management Commentary is drafted taking into consideration the ASB Reporting Statement *Operating and Financial Review*. This has been adapted in the Code Exposure Draft of this approach by requiring that local authorities take into consideration the IASB Practice Statement.
41. Following the requirements of the FReM also has the advantage of being consistent with practice in central government and the private sector as the FReM's stipulations are based on that of a business review as required by the Companies Act 2006 (Section 417). CIPFA/LASAAC is aware that the requirements of Section 417 do not directly apply to the local authorities and therefore requires that local authorities produce the Management Commentary disclosures as if Section 417 applies to them and includes additional interpretation of the Section and the FReM's requirements. It should be noted that the detail and breadth of narrative reporting required by a statutory business review is likely to be considerably more detailed and wider in scope than the current provisions of the 2011/12 Code for an Explanatory Foreword.
42. In accordance with the requirements of paragraph 5.2.11 of the FReM, this approach also includes additional specific disclosures to be produced with the financial statements. These specific disclosures are based on those requirements of the FReM which can be usefully interpreted in the context of local authority narrative reporting. The disclosures also reflect the recommended list of topics for an Explanatory Foreword, previously included in the 2011/12 Code (paragraph 3.1.4.1). These topics are likely to best represent issues to be reported in a Management Commentary for local authorities as they have been consulted on in

previous years as a part of the Code's development and prior to that were largely included in the SORP³.

43. The FReM's requirements for the production of a Management Commentary also include an interpretation of the requirement in the ASB's Reporting Statement *Operating and Financial Review* (and Section 417 (6) of the Companies Act 2006) to disclose performance against key performance indicators (FReM, paragraph 5.2.10). The IASB Practice Statement specifies that the Management Commentary should provide information that is essential to the understanding of critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives (paragraph 24). It also states that the performance measures and indicators will usually reflect the industry in which an entity operates and that comparability is enhanced if the entity uses performance measures that are used widely (paragraph 38) but notes that the performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity.
44. CIPFA/LASAAC is of the view that the IASB Practice Statement provides sufficient guidance for local authorities and therefore the proposed future approach provides no further stipulation in this area as an authority should be able to tailor its own performance information and measures to best meet the Statement requirements for its local circumstances. CIPFA/LASAAC is seeking respondents' views on whether or not there is sufficient guidance in the Code Exposure Draft of the future approach on the provision of performance information, indicators and performance measures.

Sustainability Reporting

45. CIPFA/LASAAC is aware that there are significant developments in sustainability reporting both nationally and globally. This particularly includes the International Integrated Reporting Committee (IIRC) developments on an integrated reporting framework. In the near future the IIRC are expected to issue a discussion paper for public consultation. The paper will set out the case and vision for Integrated Reporting and discuss proposals for an International Integrated Reporting Framework (see <http://www.theiirc.org/>). The April 2011 minutes of the Financial Reporting Advisory Board (FRAB) state that the Treasury will seek the Board's agreement at its October meeting to amend the FReM as planned to include the requirement in 2011/12 to produce a Sustainability Report for all bodies that are so required. CIPFA/LASAAC is of the view that due to the developments in narrative reporting and reporting frameworks mentioned in paragraph 36 above it is not yet appropriate to include any provisions on sustainability reporting in the Code but will revisit this position when developing its future approach on the Management Commentary.

Authorisation of the Management Commentary

46. The management commentaries described in the proposed future approach to the Management Commentary would be published with the financial statements. These commentaries should provide a description of management's objectives and its strategies for meeting those objectives. Such commentaries would be based on the corporate plans and strategies of the authority. These plans are usually authorised by an appropriate committee of the Council with forewords to these documents including as their signatories the Leader of the Council and the Chief Executive. Whilst the financial statements are required by statute to be

³ The Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice (the SORP), the predecessor publication to the Code

authorised for issue by the responsible/chief financial officer CIPFA/LASAAC is of the view that it is not likely to be appropriate that a Management Commentary published with the financial statements should be authorised solely by the chief financial officer but would usefully also be authorised by the Leader and Chief Executive (or equivalent posts). The question below seeks respondents' views on this issue.

Explanatory Foreword/Management Commentary	
Q14	Do you agree with CIPFA/LASAAC's approach to the production of the Explanatory Foreword for the 2012/13 Code ie to encourage authorities to follow either the provisions of the IASB Practice Statement, or the requirements of the FReM (in relation to a Management Commentary)? If not, why not? What alternatives would you suggest?
Q15	Do you consider that the future approach to the Management Commentary as described above adequately reflects the requirements of the FReM and the specifications of IASB Practice Statement? If not, why not? What alternatives would you suggest?
Q16	Do you consider that the list of topics proposed to be included as disclosure requirements in the future approach and as a suggested topic list in the 'encourage' approach are appropriate topics to demonstrate the authority's future performance, financial position and progress? If not, why not? What alternatives would you suggest?
Q17	Do you agree that the Code should not include any further stipulations or guidance on the inclusion of performance information in the Management Commentary (in the future approach)? If not, why not? What alternatives would you suggest?
Q18	Do you agree with CIPFA/LASAAC's view that a Management Commentary (in the future approach) produced with the financial statements should be authorised by the Leader, Chief Executive and Chief Financial Officer or equivalent officer/position of the authority? If not, why not? What alternatives would you suggest?
Q19	Do you agree with CIPFA/LASAAC's view that it is not yet appropriate to include any specific requirements in the Code in relation to sustainability reporting? If not, why not? What alternatives would you suggest?

Accounting for Financial Instruments – Amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets)

47. In October 2010 the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures* (transfers of financial assets). The amendments will assist the users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. The Code Exposure Draft, therefore, only includes the requirements of the first paragraph of the

amendments to the standard and cross-refers to the remaining disclosures (paragraphs 42B-42H). CIPFA/LASAAC seeks respondents' views on this approach. It should be noted, however, that these amendments have yet to be adopted by the EU and may need to be revised if they are not adopted in time for inclusion in the 2012/13 Code.

Accounting for Financial Instruments – Amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets)

Q20 Do you agree that the Code Exposure Draft accurately incorporates the requirements of the Amendments to IFRS 7 *Financial Instruments: Disclosures (October 2010)*? If not, why not? What alternatives would you suggest?

Q21 Do you agree with CIPFA/LASAAC's view that the transactions covered by the disclosures in the amendment to the standard occur infrequently in local government and that as a consequence the Code should only include one of the amending paragraphs and an appropriate cross-reference to the remaining disclosure requirements (see paragraphs 42B-42H of the amendments to the standard)? If not, why not? What alternatives would you suggest?

IASB Conceptual Framework for Financial Reporting 2010

48. In September 2010 the IASB finalised the first phase of the joint project (with the US Financial Accounting Standards Board (FASB)) to develop an improved conceptual framework for IFRSs (and US GAAP). The first phase of *The Conceptual Framework for Financial Reporting 2010* (Conceptual Framework) includes the first two chapters: Chapter 1 *The Objective of General Purpose Financial Reporting* and Chapter 3 *Qualitative Characteristics of Useful Financial Information*. The IASB have confirmed that as each chapter of the Conceptual Framework is issued it will replace the relevant paragraphs in the IASB *Framework for the Preparation and Presentation of Financial Statements* (*Presentation Framework*).
49. Paragraphs 2.1.2.1 to 2.1.2.15 of the Code provide an interpretation of the Presentation Framework paragraphs that have been replaced. CIPFA/LASAAC is of the view that it should not update the Code until the Conceptual Framework is completed. Furthermore, additional relevant guidance on these concepts is being developed by the International Public Sector Accounting Standards Board (IPSASB) in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. The proposed amendments to the Code therefore only inform authorities of the new provisions of the IASB Conceptual Framework and require that these provisions should be taken into account if an authority is of the view that the treatment of a transaction or other event is not covered by a specific Code requirement and is therefore reliant on paragraphs 2.1.2.1 to 2.1.2.15 of the Code (see amended paragraph 2.1.1.1).

Q22 Do you agree that the interpretations in the Code relating to the IASB Conceptual Framework should not be updated until the Conceptual Framework has been completed? If not, why not? What alternatives would you suggest?

CIPFA's Code of Practice on Transport Infrastructure Assets.

Background

50. The Code of Practice on Transport Infrastructure Assets was published in March 2010. The Code is intended to serve as best practice guidance for those who are responsible for the management of the infrastructure assets and as a tool for those who audit their performance. A key principle that underpins the Code is that the same data should be capable of serving the needs of asset management, financial management, budgeting and financial reporting. The Transport Infrastructure Code therefore uses a Depreciated Replacement Cost (DRC) approach to valuation that provides the current cost of replacing an asset with its modern equivalent asset, less deductions for all physical deterioration and impairment.
51. HM Treasury has set a timetable for gradual transition to reporting on a current cost basis for transport infrastructure assets based on the requirements of the Transport Infrastructure Code for Whole of Government Accounts (WGA) purposes. Respondents will be aware that the WGA timetable commenced in 2009/10. The remainder of this timetable will require a full audited dry run for 2011/12 and the withdrawal of historical cost based reporting from 2012/13.

Adoption of Measurement Provisions of the Code of Practice on Transport Infrastructure Assets

52. The advancements of infrastructure asset reporting under WGA provide grounds for considering a move in the Code of Practice on Local Authority Accounting from a depreciated historical cost basis to a Depreciated Replacement Cost (DRC) basis as set out in the Code of Practice on Transport Infrastructure Assets. Such a move would also mean that local authorities would no longer be required to run dual reporting systems ie report infrastructure assets on a different basis for WGA and the financial statements. Furthermore, whilst many of the benefits from effective Asset Management Planning generated by following the Code of Transport Infrastructure Assets (such as better targeting of current and future spend) do not require changes in financial reporting, the full benefits from consistent measurement and accounting would only flow from the alignment of the two Codes.
53. The Code of Practice on Local Authority Accounting in the United Kingdom currently measures infrastructure assets at historic cost. Whilst this is compliant with the requirements of IFRS it is not likely to be the most appropriate measurement base for the transport infrastructure assets of local authorities. CIPFA/LASAAC has under both the SORP and the IFRS based Code been of the view that current value accounting is the more appropriate measurement base for local authority assets. Taking into consideration the benefits of alignment of the measurement principles of both Codes and its views on current value accounting for local authority assets, CIPFA/LASAAC considers that only significant practical issues will prohibit a future move to measurement at a DRC base at an

appropriate date in the future. However, it is seeking local authorities' views on the practical issues they will face prior to full adoption.

54. As a part of its consideration of the practical issues CIPFA/LASAAC wishes to ensure if and when a decision is made to measure infrastructure assets at DRC in local authority accounts, the change to the Code is made only when authorities are confident that their management information and other systems are able to provide the robust data needed to support the carrying value of the assets reported in the financial statements.

Voluntary Early Adoption

55. CIPFA/LASAAC is aware that a number of authorities are already developing (or have developed) their information bases for transport infrastructure assets. These authorities may wish to progress to measuring transport infrastructure assets on a DRC basis sooner than the timetables set out above. CIPFA/LASAAC is therefore considering permitting local authorities to measure transport infrastructure on a DRC basis and is seeking respondents' views on this. The Code Exposure Draft offers two models for early adoption.
56. The first model includes the appropriate amendments to the measurement provisions in Section 4.1 of the Accounting Code to permit authorities to measure their transport infrastructure assets on a DRC basis. A move to a DRC basis would mean that this would be interpreted as being representative as a measure of fair value of the assets. It is important to note that voluntary adoption of a DRC measurement base for the 2012/13 year would require that local authorities make a (voluntary) change in their accounting policies and therefore require DRC information to be included in the comparative financial statements from 1 April 2011. It is likely that a move to DRC basis would significantly increase depreciation charges and thus service costs and any authority wishing to move voluntarily to a DRC basis should consider this issue when presenting service costs in the financial statements or any other reports of service cost. Furthermore, in order to ensure that nationally comparative data is available throughout the period until the Accounting Code formally adopts this measurement basis, local authorities voluntarily moving to the DRC measurement base would also be required to disclose the equivalent depreciated historical cost information in the notes to the financial statements.
57. CIPFA/LASAAC is also seeking respondents' views on the second model for early adoption. The second model permits early adoption by means of an additional, voluntary disclosure note for transport infrastructure assets, presented on a DRC basis as opposed to full recognition in the financial statements. A separate Code Exposure Draft is provided showing the additional disclosure requirements for the second model.
58. The scope of the Code of Practice on Transport Infrastructure Assets deals with highways infrastructure which is taken to mean the network of highways, footways and cycleways and the structures, lighting and other assets that are directly associated with them. Assets such as car parks, maintenance depots and bus stations that are owned or operated by local authorities should be regarded as property assets and measured in accordance with the requirements of property, plant and equipment in the Code of Practice on Local Authority Accounting. It is thought that for most authorities there are not likely to be any significant infrastructure assets outside the scope of transport infrastructure assets. CIPFA/LASAAC is of the view, for example, that coastal defences may be the only infrastructure assets for some district authorities. However, where authorities that voluntarily adopt the DRC measurement requirements for

transport infrastructure assets, have other infrastructure assets such as tram, light rail or underground systems these assets will continue to be measured at depreciated historical cost. It should be noted that the Code of Transport Infrastructure Assets may be extended to cover these assets in the future.

CIPFA Code of Practice on Transport Infrastructure Assets

Q23 What practical issues do you consider local authorities would face in a future move to the measurement of transport infrastructure assets on a DRC basis in accordance with the measurement requirements of the Code of Practice on Transport Infrastructure Assets? Please set out how you consider these practical issues will impact on financial reporting of transport infrastructure assets.

Q24 Do you consider that the Code should permit local authorities to move to measuring transport infrastructure assets at DRC in accordance with the requirements of the Code of Practice on Transport Infrastructure Assets in the 2012/13 Code? If not, why not? Please give reasons for your answer. What alternatives would you suggest?

Q25 What form of voluntary adoption of DRC measurement of transport infrastructure assets should the Code take? Should this be by means of full recognition in the financial statements or via an appropriate disclosure note to the financial statements? Please give reasons for your answer.

Q26 Do you consider that the scope of transport infrastructure assets is clearly defined for authorities wishing to voluntarily adopt the measurement requirements of the Code of Transport Infrastructure Assets? If not, why not? Please give reasons for your answer. What alternatives would you suggest?

Other Minor Changes Reflecting Revisions to Accounting Standards, Codes and Legislation

59. Further revisions to accounting standards and legislation are also reflected in the proposed 2012/13 Code. Proposed changes to the 2011/12 Code arise from by *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)* issued by the IASB in December 2010. The Code paragraph A.1.2 includes proposed amendments to reflect the changes to the standard. The effective date of this amendment is 1 January 2012. These amendments will therefore apply to the 2012/13 Code only. It should be noted, however, that these amendments have yet to be adopted by the EU and may need to be revised if they are not adopted in time for inclusion in the 2012/13 Code.
60. No further accounting standards or legislation or other changes requiring amendment of the Code have been identified to date. However, it is possible that additional legislation, regulations or statutory guidance relating to 2012/13 will be issued prior to the Code being finalised. If this is the case, CIPFA/LASAAC will incorporate the requirements into the published Code.

Other minor changes reflecting revisions to accounting standards, codes and legislation

Q27 Do you agree that the amendments to the Code accurately reflect the amendments to IAS 12? If not, why not? What alternatives would you suggest?

Q28 Are there any further accounting standards or legislative changes that need to be reflected in the Code?

IFRS 9 Financial Instruments

61. IFRS 9 *Financial Instruments* was published in November 2009 and contained requirements for financial assets. The requirements for financial liabilities were added to IFRS 9 in October 2010. The standard has an effective date of 1 January 2013. The IASB has indicated that it aims to replace all of the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* through further additions to *IFRS 9*; this includes phase 2 Impairment (note that it is possible that this phase might be issued as a separate standard) and phase 3 Hedge Accounting. The target date for issue of the finalised publications for phases 2 and 3 is quarter 3 of 2011. The effective dates of these phases have yet to be confirmed. The EU has indicated that it is likely to adopt the standard only once it is complete rather than as individual phases are approved.
62. CIPFA/LASAAC is also of the view that it does not wish to recommend early adoption of the provisions of the new standard until the standard is complete. IFRS 9 is therefore likely to be adopted in 2013/14, subject to EU adoption.

Statutory Accounting or Disclosure Issues

Housing Revenue Account Reform in England – Statutory Accounting Requirements

63. Respondents in authorities with a HRA will be aware that the 2012/13 financial year is likely to see significant changes to the HRA in England. In February 2011 the DCLG set out their plans for the replacement of the Housing Revenue Account Subsidy System in England in the policy document *Implementing Self-Financing for Council Housing* on the future financial arrangements for council housing. The Localism Bill published in December 2010 includes measures to repeal the existing subsidy system and replace it with powers for the Secretary of State to introduce the self-financing system.
64. The self-financing system will be implemented through a one off settlement payment to replace the Subsidy system, leaving authorities with a level of HRA debt deemed affordable from rental income.
65. Also in February 2011, CIPFA issued the *Consultation on Proposed Capital Finance Arrangements under the New Housing Finance System*. This paper consulted on changes to the capital financing arrangements and included proposals on two areas: debt management arrangements and depreciation. The proposals discussed depreciation and impairment charges which would both need to be charged to the Housing Revenue Account (HRA) in accordance with the proper practice requirements specified by the Code. The consultation sought practitioners' views on the impact on the HRA in relation to depreciation of HRA assets not funded from borrowing and any impairment loss recognised on HRA

assets. CIPFA will issue detailed guidance in a paper on depreciation on HRA assets. This will be posted on the CIPFA website. It will be followed by a comprehensive guide to implementing the new self-financing system in the autumn.

66. On implementation of the new regime there are likely to be changes to the statutory accounting requirements for the HRA in England (see paragraphs 4.1.3.4 - 4.1.3.7 of the Code). However, as the Localism Bill is not expected to be enacted until later in 2011 any use of the new powers for the Secretary of State to introduce the self-financing system would be subject to the passage of the Bill. The timescale for the introduction of these changes is likely to be outside the timetable for the production of the 2012/13 Code. Any changes to the Code as a result of the introduction of the self-financing regime will therefore need to be implemented via a 2012/13 Code Update. It should be noted that this would not impact on the ability of housing authorities in England to implement any statutory accounting requirements introduced by the new self-financing system.

Localism Bill – the General Power of Competence

67. The Localism Bill will provide local authorities with a new general power of competence. The new power will provide local authorities with the power to do anything that an individual generally may do, other than that which is specifically prohibited. It is anticipated that local authorities will be able to use these powers to innovate and reduce costs by sharing services. It could encourage other forms of innovation. The Bill is anticipated to be enacted later this calendar year. CIPFA/LASAAC is interested in whether or not respondents see any need for changes or additional interpretation in the Code which might arise as a result of local authorities using this new power.

Localism Bill – General Power of Competence

Q29 Do you consider that there are any areas of the Code that will require additional interpretation or guidance as a result of local authorities using the general power of competence as set out in the Localism Bill? Please support your response with a description of the anticipated use of the power and the areas in the Code you consider will require additional interpretation or guidance.

Accounting for Carbon Reduction Commitment Allowances

68. The 2011/12 Code Foreword set out that following the announcements in the Spending Review CIPFA/LASAAC agreed to defer consideration of this issue until the changes to the Scheme are confirmed. However, since the publication of the 2011/12 Code, there is now a degree of certainty in relation to accounting for CRC emissions and allowances during the introductory phase of the scheme, which covers the four years from April 2010 to March 2014. For 2011/12 onwards, CRC allowances are required to be purchased and surrendered in proportion to emissions. Authorities will need to accrue for the cost of their energy use under the Carbon Reduction Commitment Scheme incurred during 2011/12 and for subsequent years. CIPFA/LASAAC considers that the general provisions of the Code will cover the accounting requirements to recognise an accrued expense and a liability for the purchase of the allowances and for the eventual settlement of the liability.

69. The Scheme is currently undergoing a review and simplification process which may impact on the accounting treatment when the scheme is finalised and therefore may feature in future editions of the Code.

Code Drafting Issues

70. During the development of the 2012/13 Code. CIPFA/LASAAC intends to review the structure of the Code to ensure that it clearly presents the different reporting requirements for local authorities ie by separating the statutory reporting requirements from those required by accounting standards. This review will not change the reporting requirements for local authorities in any way and therefore has not been included in the Exposure Drafts.

Further Guidance

71. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where additional guidance would be welcomed or improvements to the Code could be made. This consultation is the first to be issued following the first year of implementation of IFRS in local authority financial statements. CIPFA/LASAAC is therefore undertaking a post implementation review of the first year adoption of the IFRS-based Code. It wishes to seek respondents' views on any areas where additional guidance or improvements would be helpful. Furthermore it wishes to seek respondents' views on whether there are further areas of simplification or change that can usefully be introduced in the Code.

CIPFA/LASAAC Review

72. CIPFA/LASAAC considers that following the first year of implementation of IFRS it is appropriate to seek views on whether or not its governance arrangements could be improved to continue to meet the needs of its stakeholders. The Terms of Reference, the annual code setting process and the Membership of CIPFA/LASAAC are available on the technical pages of the CIPFA website.
73. CIPFA/LASAAC will assess the feedback from this consultation and will follow this with a public statement on the actions and outcomes of the post-implementation review of the Code and the CIPFA/LASAAC review on the CIPFA/LASAAC pages of the CIPFA website during 2012.

Further Guidance	
Q30	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the issues that need to be addressed.
Q31	Are there any areas of the Code which respondents consider can be simplified within the local government statutory accounting framework? Please support your answer by giving details of the ways in which you consider the financial reporting requirements can be simplified.
Q32	Are there any issues in relation to the implementation of the first year of IFRS that you consider could be usefully assessed in a post implementation review? Please support your answer by giving details of your areas of concern, and how do you consider these could be

addressed by CIPFA/LASAAC.

Q33

Are there any areas in relation to CIPFA/LASAAC's governance arrangements for the production of the Code, such as the Terms of Reference, the annual Code setting process and the Membership of CIPFA/LASAAC, which could be improved in order to ensure the Code continues to meet the needs of its stakeholders? Please support your answer by giving details of where any improvements could be made and how you consider this might lead to improvements in the Code.